ForteBank Joint Stock Company

Consolidated financial statements

Year ended 31 December 2017
together with independent auditor's report

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Building a better working world

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Independent auditor's report

To the Shareholders and Board of Directors of ForteBank Joint Stock Company

Opinion

We have audited the consolidated financial statements of ForteBank Joint Stock Company and its subsidiaries (the "Group"), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2017, the consolidated statement of financial position as at 31 December 2017, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended 31 December 2017, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	*How the matter was addressed in the audit*
Allowance for impairment of loans to customers	
Adequacy of the amount of allowance for impairment of loans to customers is the key area of the Group's management judgement. Determination of the evidence of impairment and determination of the recoverable amount are the processes that involve high level of subjective judgement, use of assumptions and analysis of different factors, including borrower's financial position, expected future cash flows and value of collateral. Use of different models and assumptions may materially affect the amount of allowance for impairment of loans to customers. Due to the substantial amount of loans to customers, which in aggregate amounts to 47% of the Group's total assets as at 31 December 2017, estimation of allowance for impairment has been one of the key audit matters.	Our audit procedures included the analysis of methodology on estimation of allowance for impairment of loans to customers and assessment and testing of the design and operating effectiveness of controls over the processes of impairment identification and estimation. As part of the audit procedures in assessment of impairment of loans to customers on a collective basis, we performed an analysis of assumptions and testing of inputs used by the Group, including migration rates, probability of default and recovery rates. We have analysed the consistency of judgements applied by the Group's management in assessment of economic factors and statistical information on the losses incurred and amounts recovered, as well as their compliance with general practice and our professional judgement. With regard to assessment of impairment of loans to customers on an individual basis, we performed the analysis of the Group's management expectations on future cash flows, including the cash flows that may result from foreclosure of collateral, based on our professional judgement and information available in the market. We assessed the information on the allowance for impairment of loans to customers disclosed in *Note 16* to the consolidated financial statements.

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Assessment of recoverability of deferred tax assets

We considered this matter to be one of the key audit matters of the current period due to the magnitude of the amounts involved and subjective judgments of the Group's management used in estimating the recoverability of deferred tax assets, which is impacted by uncertainties regarding the likely timing and amount of future taxable profits, together with tax planning strategies and the statutory expiration of tax losses.

Our audit procedures on recoverability of deferred income tax assets included an assessment, with the involvement of our tax experts, of forecasts of future taxable profits developed by the management on the basis of the budget and the assessment of business prospects. We evaluated the significant assumptions made in the forecasts and compared them with the available external data and actual performance indicators of the Group.

We assessed the information on deferred tax assets disclosed in *Note 11* to the consolidated financial statements.

Other information included in the Annual report of the Group for 2017

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The annual report is expected to be made available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any conclusion providing assurance in any form with regard to this information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available to us and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibility of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for the supervision of the Group's consolidated financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. Besides, we perform the following:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to these risks, obtain audit evidence, which is sufficient and appropriate to serve as a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we determine the existence of material uncertainty, we shall draw attention in our opinion to the related disclosure in the consolidated financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may result in the Group's loss of ability to continue as a going concern;
- evaluate the overall presentation of the consolidated financial statements, their structure and content, including disclosure of information, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with the statement that we complied with all respective ethical requirements with regard to independence and communicated to them all relations and other matters that may be reasonably considered as affecting the auditor's independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Bakhtiyor Eshonkulov.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner

Auditor qualification certificate
No. МФ – 0000099 dated 27 August 2012

Gulmira Turmagambetova
General director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003, issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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27 February 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

(millions of tenge)

	Notes	*2017*	*2016*
Interest income	5	120,346	106,970
Interest expense	5	(75,907)	(64,378)
Net interest income		44,439	42,592
Fee and commission income	6	12,002	8,111
Fee and commission expense		(3,514)	(1,785)
Net gains from financial instruments at fair value through profit or loss	7	1,335	4,766
Net gains from available-for-sale securities		345	184
Net gains from foreign currencies	8	965	744
Net gains from repurchase of debt securities issued		–	276
Gain on return of instruments unclaimed by creditors	19	3,139	–
Other operating income, net		2,614	1,129
Non-interest income		16,886	13,425
Impairment losses and provisions	9	(86)	(2,537)
General and administrative expenses	10	(36,482)	(34,568)
Non-interest expense		(36,568)	(37,105)
Profit before corporate income tax expense		24,757	18,912
Corporate income tax expense	11	(5,006)	(7,258)
Profit for the year		19,751	11,654
Attributable to:			
- shareholders of the Bank		19,655	11,787
- non-controlling interests		96	(133)
		19,751	11,654
Other comprehensive income			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met			
Net change in fair value of available-for-sale securities		1,979	240
Realised gains from change in fair value of available-for-sale securities reclassified to profit or loss		(345)	(184)
Other comprehensive income for the year, net of tax		1,634	56
Total comprehensive income for the year		21,385	11,710
Attributable to:			
- shareholders of the Bank		21,289	11,843
- non-controlling interests		96	(133)
		21,385	11,710
Basic and diluted earnings per share (in tenge)	25	0.21	0.13

Signed and authorised for issue on behalf of the Management Board of the Bank:

Auyezkanov Aidyn Begzadayevich
Acting chairman of the Management Board

Yetekbayeva Yerkin Altynbekovna
Chief accountant

27 February 2018

The accompanying notes on pages 6 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

(millions of tenge)

	Notes	*31 December 2017*	*31 December 2016*
Assets			
Cash and cash equivalents	12	231,820	177,241
Amounts due from financial institutions	13	6,393	10,682
Trading securities	14	290,919	207,181
Derivative financial assets	15	–	30,153
Loans to customers	16	671,851	623,923
Investment securities:			
- available-for-sale	17	58,559	19,755
- held-to-maturity	17	23,839	–
Property and equipment	18	49,009	50,698
Intangible assets		3,741	3,520
Deferred tax assets	11	6,740	11,633
Other assets	19	101,769	80,391
Total assets		1,444,640	1,215,177
Liabilities			
Current accounts and deposits of customers	20	981,225	802,835
Amounts due to banks and other financial institutions	21	75,894	69,152
Amounts payable under repurchase agreements	28	36,639	–
Debt securities issued	22	125,121	134,421
Deferred tax liabilities	11	122	81
Subordinated debt	23	22,740	22,740
Other liabilities		8,698	8,026
Total liabilities		1,250,439	1,037,255
Equity			
Share capital	24	331,522	332,094
Additional paid-in capital		21,116	21,116
Revaluation reserve for available-for-sale securities		598	(1,036)
Accumulated losses		(159,676)	(174,797)
Total equity attributable to the shareholders of the Bank		193,560	177,377
Non-controlling interests		641	545
Total equity		194,201	177,922
Total equity and liabilities		1,444,640	1,215,177

The accompanying notes on pages 6 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

(millions of tenge)

	Note	*2017*	*2016*
Cash flows from operating activities			
Interest income received		114,714	89,946
Interest expense paid		(68,888)	(58,438)
Fee and commission income received		11,505	8,108
Fee and commission expense paid		(3,514)	(1,785)
Net realised (losses)/gains from financial instruments at fair value through profit or loss		(378)	6,229
Net realised losses on dealing in foreign currencies		(385)	(1,765)
Other proceeds		2,614	810
General and administrative expenses paid		(37,619)	(35,012)
Decrease/(increase) in operating assets			
Amounts due from financial institutions		5,219	1,602
Trading securities		(89,937)	(151,195)
Derivative financial assets		28,920	(1,962)
Loans to customers		(52,051)	(6,973)
Other assets		7,619	4,810
Increase in operating liabilities			
Current accounts and deposits of customers		170,522	143,742
Amounts due to banks and other financial institutions		6,705	5,544
Amounts payable under repurchase agreements		36,609	–
Other liabilities		270	(822)
Net cash flows from operating activities before income tax		131,925	2,839
Corporate income tax paid		(68)	–
Net cash flows from operating activities		131,857	2,839
Cash flows from investing activities			
Acquisition of held-to-maturity securities		(22,493)	–
Proceeds from sale of available-for-sale securities		9,314	3,695
Proceeds from redemption of available-for-sale securities		5,037	6,067
Acquisition of available-for-sale securities		(48,164)	(10,463)
Purchase of property and equipment and intangible assets		(5,951)	(19,641)
Proceeds from sale of property and equipment and intangible assets		62	99
Net cash used in investing activities		(62,195)	(20,243)
Cash flows from financing activities			
Repurchase of shares	24	(572)	(720)
Dividends paid	24	(4,534)	–
Proceeds from issue of debt securities		21	18
Redemption of debt securities issued		(8,133)	–
Repurchase of debt securities issued	22	–	(6,156)
Repurchase of subordinated debt		–	(3,012)
Net cash used in financing activities		(13,218)	(9,870)
Net change in cash and cash equivalents		56,444	(27,274)
Effect of exchange rate changes on cash and cash equivalents		(1,865)	2,418
Cash and cash equivalents, beginning of the period		177,241	202,097
Cash and cash equivalents, end of the period	12	231,820	177,241
Non-cash transactions			
Offset of corporate income tax prepaid with other taxes payable		–	(10)
Repossession of collateral on loans to customers	16	17,119	24,206
Transfer of property and equipment to assets held for sale within other assets	19	5,047	–

The accompanying notes on pages 6 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(millions of tenge)

	Equity attributable to the shareholders of the Bank						
	Share capital	*Additional paid-in capital*	*Revaluation reserve for available-for-sale securities*	*Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
Balance at 1 January 2017	332,094	21,116	(1,036)	(174,797)	177,377	545	177,922
Profit for the year	–	–	–	19,655	19,655	96	19,751
Other comprehensive income							
Net change in fair value of available-for-sale securities, net of tax	–	–	1,979	–	1,979	–	1,979
Realised gains from change in fair value of available-for-sale securities reclassified to profit or loss	–	–	(345)	–	(345)	–	(345)
Other comprehensive income for the year	–	–	1,634	–	1,634	–	1,634
Total comprehensive income for the year	–	–	1,634	19,655	21,289	96	21,385
Transactions with owners recorded directly in equity							
Repurchase of shares (Note 24)	(572)	–	–	–	(572)	–	(572)
Dividends paid (Note 24)	–	–	–	(4,534)	(4,534)	–	(4,534)
Balance at 31 December 2017	331,522	21,116	598	(159,676)	193,560	641	194,201

The accompanying notes on pages 6 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Equity attributable to the shareholders of the Bank						
	Share capital	*Additional paid-in capital*	*Revaluation reserve for available-for-sale securities*	*Accumulated losses*	*Total*	*Non-controlling interests*	*Total equity*
Balance at 1 January 2016	332,814	21,116	(1,092)	(186,584)	166,254	776	167,030
Profit for the year	–	–	–	11,787	11,787	(133)	11,654
Other comprehensive income							
Net change in fair value of available-for-sale securities, net of tax	–	–	240	–	240	–	240
Realised gains from change in fair value of available-for-sale securities reclassified to profit or loss	–	–	(184)	–	(184)	–	(184)
Other comprehensive income for the year	–	–	56	–	56	–	56
Total comprehensive income for the year	–	–	56	11,787	11,843	(133)	11,710
Acquisition of non-controlling interests	–	–	–	–	–	(98)	(98)
Transactions with owners recorded directly in equity							
Repurchase of shares (Note 24)	(720)	–	–	–	(720)	–	(720)
Balance at 31 December 2016	332,094	21,116	(1,036)	(174,797)	177,377	545	177,922

The accompanying notes on pages 6 to 62 are an integral part of these consolidated financial statements.

(millions of tenge)

1. General information

Corporate structure and activities

These consolidated financial statements include financial statements of ForteBank Joint Stock Company (hereinafter – the "Bank") and its subsidiaries (together – the "Group").

The Bank was established in 1999 under the laws of the Republic of Kazakhstan. On 10 February 2015, the Bank was reregistered as ForteBank JSC (formerly, Alliance Bank JSC).

Legal address of the Bank's head office: 8/1, Dostyk Str., 010017, Astana, Republic of Kazakhstan. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK"). The Bank operates under license No. 1.2.29/197/36 for conducting banking and other activities and operations on securities market stipulated by the banking legislation, issued by the NBRK on 27 February 2015.

The Group's primary business is related to commercial banking activities, issue of loans and guarantees, accepting deposits, exchanging foreign currencies, dealing with securities, transferring cash payments, as well as providing other banking services. Debt securities issued by the Bank are listed on the London Stock Exchange, the Luxembourg Stock Exchange and the Kazakhstan Stock Exchange (hereinafter – the "KASE").

The Bank is a participant of the Kazakhstan Deposit Insurance Fund (hereinafter – the "KDIF"). The primary objective of the KDIF is to protect interests of depositors in the event of forced liquidation of the participant bank. As at 31 December 2017 and 2016, depositors can receive limited insurance coverage for deposits, depending on the currency of the deposit: in tenge – up to KZT 10 million, in foreign currencies – up to KZT 5 million.

As at 31 December 2017 and 2016, the Group includes the following subsidiaries:

Name	*Country of incorporation*	*Principal activities*	*Ownership, %* *31 December 2017*	*31 December 2016*
ForteLeasing JSC (formerly, Temirleasing JSC)	Republic of Kazakhstan	Leasing operations	80.6	80.6
OUSA Alliance LLP	Republic of Kazakhstan	Management of doubtful and bad assets	100.0	100.0
OUSA-F LLP	Republic of Kazakhstan	Management of doubtful and bad assets	100.0	100.0
Alliance Finance LLC	Russian Federation	Capital markets operations in Russia	–	100.0

On 30 September 2017, the Group completed voluntary liquidation of Alliance Finance LLC.

Shareholders

As at 31 December 2017, Mr. Bulat Utemuratov owns 88.23% of the outstanding common shares of the Bank and is an ultimate controlling shareholder of the Group (31 December 2016: 87.80%). The rest of the shares are held by other shareholders, none of which owns more than 5% of the outstanding common shares.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements are presented in millions of Kazakhstan tenge ("tenge" or "KZT"), unless otherwise is stated.

As at 31 December 2017, the official exchange rate used for translation of monetary balances on foreign currency accounts was KZT 332.33 for 1 US dollar (31 December 2016: KZT 333.29 to 1 US dollar).

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for trading securities, derivative financial assets and investment securities available-for-sale, which have been measured at fair value.

(millions of tenge)

2. Basis of preparation (continued)

Functional and presentation currency of consolidated financial statements

The functional currency of the financial statements of the Bank and the majority of its subsidiaries is tenge. Tenge, as being the national currency of the Republic of Kazakhstan, reflects the economic substance of the majority of the Group's transactions and circumstances relevant to them affecting its activities.

The Kazakhstan tenge is also the presentation currency for the purposes of these consolidated financial statements.

Financial information of the consolidated financial statements is rounded to the nearest million.

Reclassifications

The following reclassifications have been made in the consolidated statement of cash flows for the year ended 31 December 2016 to conform to the presentation in 2017:

Consolidated statement of cash flows for the year ended 31 December 2016	*As previously reported*	*Reclassification*	*As reclassified*
Cash flows from operating activities			
Interest income received	82,889	7,057	89,946
(Increase) / decrease in operating assets			
Trading securities	(143,901)	(7,294)	(151,195)
Net cash flows from operating activities before income tax	3,076	(237)	2,839
Cash flows from operating activities	3,076	(237)	2,839
Cash flows from investing activities			
Proceeds from sale of available-for-sale securities	3,673	22	3,695
Proceeds from redemption of available-for-sale securities	5,852	215	6,067
Cash flows used in investing activities	(20,480)	237	(20,243)

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has not provided the information about changes in their liabilities arising from financing activities as it is not material, except for the information already disclosed in the consolidated financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Group's financial statements.

3. Summary of accounting policies

Basis of consolidation

Subsidiaries, which are those entities that are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- exposure, or rights, to variable returns from its involvement with the investee.
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee.
- rights arising from other contractual arrangements.
- the Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the predecessor) at the date of the transfer. Related goodwill inherent in the predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

Fair value measurement

The Group measures certain financial instruments such as trading and available-for-sale securities, derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(millions of tenge)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

In the event of assets and liabilities recognised in the financial statements on a recurring basis, the Group determines the fact of transfer between levels of hierarchy sources by re-assessing categorization (based on the lowest level input that is significant for fair value measurement in whole) at the end of each reporting period.

Financial instruments

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available for sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(millions of tenge)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Measurement of financial instruments

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method.
- held-to-maturity investments which are measured at amortised cost using the effective interest method.
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, less principal repayments, adjusted to the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(millions of tenge)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Derecognition of financial assets and liabilities (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Group's continuing involvement is limited to the lower of: the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include banknotes and coins, unrestricted balances (Nostro accounts) with the NBRK and other banks, and highly liquid financial assets with original maturities of less than 3 (three) months, which are not exposed to significant risk of changes in fair value and are used by the Group to settle short-term liabilities. Cash and cash equivalents are recorded at amortized cost in the consolidated statement of financial position.

Amounts due from financial institutions

As part of daily operations, the Group opens current accounts or places deposits on a different period of time to other banks. Amounts from financial institutions with fixed maturity are subsequently measured at amortized cost using an effective interest rate. Amounts without fixed maturity are carried at amortized cost based on expected maturity of such assets. Amounts due from financial institutions are carried net of any allowances for impairment.

Loans to customers

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or participating in syndicated loans.

Loans issued by the Group with fixed maturities are initially recognised at fair value plus incurred costs directly attributable to the acquisition or creation of such financial assets. The difference between the fair value of the consideration given and the nominal value of the loan is recorded in profit or loss in case the fair value of the consideration given is not equal to the fair value of the loan, for example when loans are issued at the lower than market rate. Subsequently loans are recognised at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, eurobonds issued and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when liabilities are derecognised, as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

(millions of tenge)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded within cash and cash equivalents or amounts due from financial institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties. In this case the purchase and sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

Derivatives include swap transactions, forward contracts and futures transactions, spot transactions and options on interest rates, foreign currencies, precious metals and securities, as well as any combination of the previously listed instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (hereinafter, a host contract). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Accounts and deposits in financial institutions

In the course of ordinary activities the Group has accounts and deposits with various maturities in other banks. Balances and deposits in the financial institutions with fixed maturities are subsequently measured at amortized cost using an effective interest rate. Those accounts and deposits that do not have fixed maturities are carried at amortized cost based on expected maturities. Deposits and balances with banks and other financial institutions are carried net of any allowance for impairment losses, if any.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business.
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Leases

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into general and administrative expenses.

(millions of tenge)

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised on a straight-line basis over the lease term within other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred in connection with operating lease agreement are added to the carrying amount of a leased out asset.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land, construction in progress and assets for installation are not depreciated. The estimated useful lives are as follows:

	Years
Buildings	30-40
Computer hardware	3-7
Vehicles	5-7
Other	2-15

The asset’s residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 1 to 8 years.

Investment property

Investment property, including office buildings, is intended to earn rentals or capital appreciation, and which is not used by the Group as fixed assets.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time when such cost are incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost, less accumulated depreciation. Buildings within investment property are depreciated on a straight-line basis over the period of useful life, which is 40 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of comprehensive income in the year of retirement or disposal.

(millions of tenge)

3. Summary of accounting policies (continued)

Investment property (continued)

Transfers to and from investment property are made when, and only when, there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the owner becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Inventories

Inventories are valued at the lower of acquisition cost and net realizable value. Net realisable value is the estimated asset's selling price in the ordinary course of the Group's business, less the estimated costs to sell.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan, which requires withholdings by the employer calculated as a percentage from current gross salary payments. Such expense is charged in the period the related salaries are accrued, and is included to "General and administrative expenses" in the consolidated statement of comprehensive income. The Group contributes social tax to the budget of the Republic of Kazakhstan for its employees. The Group has no post-retirement benefits.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from financial institutions and loans to customers

For amounts due from financial institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected loan losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in profit or loss.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

(millions of tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from financial institutions and loans to customers (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses by the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investment securities

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

Available-for-sale financial investments

For available-for-sale financial investment or a group of investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recognised in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Provisions

Provisions are recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(millions of tenge)

3. Summary of accounting policies (continued)

Funds management and trust activities

The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the instructions of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

Custodian services

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These assets are not assets of the Group and are not recognised in the consolidated statement of financial position.

Equity

Share capital

Common shares and non-redeemable preferred shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid in capital.

Treasury shares

Where the Bank or its subsidiaries acquire the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Taxation

Corporate income tax comprises current and deferred tax. Corporate income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and deferred tax liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and deferred tax liabilities are not recognised in respect of the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

Kazakhstan also has various operating taxes that are imposed on activities of the Bank and some of its subsidiaries. These taxes are included in the consolidated statement of comprehensive income within taxes other than corporate income tax.

(millions of tenge)

3. Summary of accounting policies (continued)

Income and expense recognition

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as trading and available-for-sale instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service is provided.

Dividend income

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate established by the KASE on the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of comprehensive income as net gains/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE exchange rate on the date of the transaction are included in gains/(losses) from foreign currencies.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

(millions of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

The Group plans to adopt the new standard by recognizing the cumulative transition effect in opening accumulated losses on 1 January 2018 and will not restate comparative information. Based on the data as at 31 December 2017 and current implementation status, the Group estimates that the adoption of IFRS 9 will result in a decrease in shareholders' equity as at 1 January 2018 of approximately KZT 13,357 million.

As of the date the consolidated financial statements are authorised for issue, the methodology for impairment of financial assets of the Group is under approval by the NBRK. The Group does not preclude that effect of application of IFRS 9 may differ from the amount disclosed above as a result of approval of this methodology by the regulator.

(a) *Classification and measurement*

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortized cost.
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI).
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Group expects to continue measuring at fair value all financial assets currently held at fair value. Trading equity and debt securities will continue to be classified as measured at FVPL. Debt securities currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Group expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. All loans to customers are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) *Impairment*

IFRS 9 requires the Group to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening accumulated losses on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Group's income will not be impacted by the adoption of this standard. The Group currently does not expect a material effect from initial application of IFRS 15.

(millions of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group does not expect a material effect from application of these amendments.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group does not expect a material effect from application of these amendments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. There is no effect from application of IFRS 17 on the Group's consolidated financial statements.

(millions of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. The Group does not expect a material effect from application of these amendments.

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. Group does not expect a material effect from application of these amendments.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. There is no effect on the Group from these amendments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

(millions of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Annual improvements 2014-2016 cycle (issued in December 2016) (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

4. Significant accounting judgements and estimates

Estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Collateral assessment

The Bank management performs monitoring of collateral on a regular basis. The management of the Bank uses experienced judgements or an independent assessment in order to adjust the value of collateral considering the current market conditions.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans issued and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Regulations on their implementations are often unclear or non-existent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and explanation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

(millions of tenge)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Taxation (continued)

The management believes that the Bank's tax position as at 31 December 2017 and 2016 was in compliance with tax laws of the Republic of Kazakhstan regulating its activities. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Assessment of recoverability of deferred income tax assets requires to use subjective judgements by the Group's management around the likely timing and the level of future taxable profit together with the tax planning strategy.

The management believes that deferred tax assets as at 31 December 2017 are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised, and deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

5. Net interest income

Net interest income is presented as follows:

	2017	*2016*
Interest income		
Loans to customers	95,130	87,214
Available-for-sale securities	4,128	1,396
Amounts due from financial institutions	1,415	1,524
Held-to-maturity securities	706	–
Amounts receivable under reverse repurchase agreements	236	1,827
	101,615	91,961
Trading securities	18,731	15,009
	120,346	106,970
Interest expense		
Current accounts and deposits of customers	(57,033)	(44,742)
Debt securities issued	(13,771)	(14,919)
Amounts due to banks and other financial institutions	(3,180)	(1,932)
Subordinated debt	(1,792)	(1,898)
Amounts payable under repurchase agreements	(131)	(887)
	(75,907)	(64,378)
Net interest income	44,439	42,592

Interest income for the year ended 31 December 2017 includes interest income of KZT 8,739 million accrued on impaired financial assets (2016: KZT 9,874 million).

6. Fee and commission income

Fee and commission income is presented as follows:

	2017	*2016*
Settlement transactions	4,112	3,077
Card operations	3,839	1,918
Cash operations	1,949	1,593
Guarantees and letters of credit	903	529
Foreign currency transactions and transactions with securities	526	487
Trust management, custody and other fiduciary services	69	83
Other	604	424
	12,002	8,111

(millions of tenge)

7. Net gains from financial instruments at fair value through profit or loss

Net gains from transactions with financial instruments at fair value through profit or loss are presented as follows:

	2017	*2016*
Net gains from change in fair value of trading securities	3,412	8,787
Net losses from derivative financial instruments	(2,077)	(4,021)
	1,335	4,766

During 2017 net losses from derivative financial instruments include realized loss in the amount of KZT 1,358 million from change in fair value of currency swaptions under the agreements with the NBRK (2016: unrealized losses in the amount of KZT 3,572 million) (Note 33).

8. Net gains from foreign currencies

Net gains from foreign currencies are presented as follows:

	2017	*2016*
Translation differences, net	1,350	2,509
Dealing transactions, net	(385)	(1,765)
	965	744

9. Impairment losses and provisions

Impairment losses and provisions are presented as follows:

	2017	*2016*
Loans to customers (Note 16)	280	(2,248)
Amounts due from financial institutions (Note 13)	(3)	(529)
Other assets (Note 19)	(363)	240
	(86)	(2,537)

10. General and administrative expenses

General and administrative expenses are presented as follows:

	2017	*2016*
Personnel expenses and related taxes	(19,907)	(18,347)
Depreciation and amortisation	(3,936)	(3,084)
Taxes other than corporate income tax	(2,483)	(2,741)
Maintenance of buildings	(1,790)	(1,429)
Repair and maintenance	(1,583)	(1,280)
Rent (Note 30)	(1,578)	(1,697)
Telecommunication and information services	(1,028)	(769)
Security	(1,008)	(1,016)
Advertising and marketing	(981)	(1,643)
Encashment	(410)	(354)
Transportation	(371)	(362)
Other professional services	(223)	(158)
Legal services	(141)	(656)
Other	(1,043)	(1,032)
	(36,482)	(34,568)

(millions of tenge)

11. Corporate income tax expense

Corporate income tax expense comprises:

	2017	*2016*
Current income tax	(72)	–
Deferred corporate income tax charge – origination and reversal of temporary differences	(4,934)	(7,258)
Corporate income tax expense	(5,006)	(7,258)

Below is the reconciliation of corporate income tax expense based on statutory rate with corporate income tax expense recorded in the consolidated financial statements:

	2017	*2016*
Profit before corporate income tax expense	24,757	18,912
Statutory corporate income tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	(4,951)	(3,782)
Non-taxable income on government securities and securities officially listed at the KASE	4,988	4,014
Change in unrecognised deferred tax assets	(5,496)	(6,994)
Adjustment of corporate income tax loss/(gain) for prior years	759	(594)
Other	(306)	98
Corporate income tax expense	(5,006)	(7,258)

Deferred tax assets and liabilities as at 31 December, as well as their movements for the respective years comprise the following:

	2015	*Origination and reversal of temporary differences in profit or loss*	*2016*	*Origination and reversal of temporary differences in profit or loss*	*2017*
Tax losses carried forward	45,169	(594)	44,575	(3,593)	40,982
Loans to customers	115	(273)	(158)	(38)	(196)
Debt securities issued	90	(218)	(128)	(139)	(267)
Dynamic reserve	(7,809)	–	(7,809)	–	(7,809)
Current accounts and deposits of customers	(18,672)	1,264	(17,408)	1,411	(15,997)
Property and equipment and intangible assets	(1,274)	(512)	(1,786)	3,549	1,763
Other	1,262	79	1,341	(587)	754
Deferred tax assets	18,881	(254)	18,627	603	19,230
Unrecognised deferred corporate income tax assets	–	(6,994)	(6,994)	(5,496)	(12,490)
Deferred tax assets, net	18,881	(7,248)	11,633	(4,893)	6,740
Other deferred tax liabilities	(71)	(10)	(81)	(41)	(122)
Deferred tax liabilities	(71)	(10)	(81)	(41)	(122)

(millions of tenge)

12. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2017	*31 December 2016*
Cash on hand	31,732	38,610
Cash on current accounts with the NBRK rated BBB-	144,748	88,492
Cash on current accounts with other banks:		
- rated from A- to A+	36,787	37,756
- rated from BBB- to BBB+	1,744	9,913
- rated from BB- to BB+	1,910	1,285
- rated below B+	191	119
- not rated	43	63
Time deposits with other banks with contractual maturity of 90 days or less:		
- rated from BBB- to BBB+	6,659	–
Time deposits with the NBRK rated BBB- with contractual maturity of 90 days or less	8,006	–
Amounts receivable under reverse repurchase agreements (Note 28)	–	1,003
	231,820	177,241

The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit rating agency or analogues of similar international agencies.

Cash and cash equivalents are neither impaired nor overdue.

As at 31 December 2016, the Group entered into reverse repurchase agreements at the Kazakhstan Stock Exchange. The subject of these agreements are the government bonds with the fair value of KZT 1,025 million as at 31 December 2016. There were no such agreements as at 31 December 2017.

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of specified banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (cash in local currency and on accounts with the NBRK) equal or in excess of the average minimum requirements. As at 31 December 2017, minimum reserve requirements of the Bank amount to KZT 15,913 million (31 December 2016: KZT 12,360 million).

Concentration of cash and cash equivalents

As at 31 December 2017, the Group has accounts with one bank which balances exceed 10% of total cash and cash equivalents (31 December 2016: two banks). The total balance on the accounts with the above counteragents as at 31 December 2017 and 2016 amounts to KZT 152,754 million and KZT 116,405 million, respectively.

13. Amounts due from financial institutions

Amounts due from financial institutions comprise:

	31 December 2017	*31 December 2016*
Current accounts with the NBRK rated BBB-, restricted in use	120	2,573
Loans and deposits with other banks:		
- rated from AA- to AA+	17	17
- rated from A- to A+	2,789	1,530
- rated from BBB- to BBB+	–	83
- rated below B+	3,041	6,588
- not rated	967	427
Amounts due from financial institutions before allowance for impairment	6,934	11,218
Allowance for impairment	(541)	(536)
Amounts due from financial institutions	6,393	10,682

The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit rating agency or analogues of other international agencies.

Amounts on current accounts with the NBRK restricted in use represent funds received by the Bank as part of participation in the state program of lending to businesses.

(millions of tenge)

13. Amounts due from financial institutions (continued)

Concentration of amounts due from financial institutions

As at 31 December 2017 and 2016, the Group has amounts due from three financial institutions which balances exceed 10% of total due from financial institutions. The total value of these balances as at 31 December 2017 is KZT 5,747 million (31 December 2016: KZT 9,103 million).

Change in allowance for impairment for the years ended 31 December is presented as follows:

	2017	*2016*
At 1 January	(536)	–
Net charge (Note 9)	(3)	(529)
Effect of changes in exchange rates	(2)	(7)
At 31 December	(541)	(536)

14. Trading securities

Trading securities comprise:

	31 December 2017	*31 December 2016*
Debt instruments		
Government bonds		
Treasury bills of the United States of America rated AAA	36,285	26,619
Notes of the NBRK rated BBB-	204,370	124,034
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB	29,894	30,127
Total government bonds	270,549	180,780
Corporate bonds		
- rated from AA- to AA+	656	643
- rated from BBB- to BBB+	3,348	4,493
- not rated	–	2
Total corporate bonds	4,004	5,138
Bonds of banks		
- rated from AA- to AA+	–	1,008
- rated from BBB- to BBB+	1,072	1,353
- rated from BB- to BB+	8,654	18,818
- rated from B- to B+	5,196	–
Total bonds of banks	14,922	21,179
Equity instruments	1,444	84
	290,919	207,181

The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit rating agency or analogues of other international agencies.

Trading securities are not past due.

As at 31 December 2017, notes of the NBRK with the fair value of KZT 43,145 million are pledged under the repurchase agreements entered into at KASE (Note 28).

(millions of tenge)

15. Derivative financial assets

Derivative financial assets comprise:

	31 December 2017			*31 December 2016*		
	Notional amount	*Fair values Asset*	*Fair values Liability*	*Notional amount*	*Fair values Asset*	*Fair values Liability*
Currency swaps	54,843		(38)			
Currency swaptions	–	–	–	63,325	30,153	–
	54,843	–	(38)	63,325	30,153	–

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates and to make payments with respect to defined events based on specified notional amounts.

Swaptions are contractual agreements that convey the right, but not the obligation, for the purchaser to exchange movements in foreign currency rates and to make payments with respect to defined events based on specified notional amounts. As at 31 December 2016, the Group had currency swaption contracts with the NBRK. As at 31 December 2017, these transactions were completed in accordance with the terms of the contracts.

16. Loans to customers

Loans to customers comprise:

	31 December 2017	*31 December 2016*
Individually significant corporate loans		
Loans to large entities	216,385	173,966
Total individually significant corporate loans	216,385	173,966
Individually insignificant corporate loans and loans to individuals		
Corporate loans	128,313	117,697
Mortgage loans	93,135	102,602
Consumer loans	84,161	81,483
Car loans	3,480	3,478
Credit cards	483	399
Other loans secured by collateral	198,677	200,232
Total individually insignificant corporate loans and loans to individuals	508,249	505,891
Loans to customers	724,634	679,857
Allowance for impairment	(52,783)	(55,934)
Loans to customers	671,851	623,923

Change in allowance for impairment for the years ended 31 December is presented as follows:

	2017	*2016*
At 1 January	(55,934)	(50,883)
Net reversal/(charge) (Note 9)	280	(2,248)
Write-offs	26,746	23,700
Recoveries of amounts previously written-off	(23,822)	(27,103)
Effect of changes in exchange rates	(53)	600
At 31 December	(52,783)	(55,934)

(millions of tenge)

16. Loans to customers (continued)

Quality of individually significant corporate loans

Information on the quality of individually significant corporate loans at 31 December 2017 is provided in the table below:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to gross loans (%)*
Individually significant corporate loans				
Loans without individual signs of impairment	155,563	(273)	155,290	0.18
Impaired loans:				
- not overdue	32,234	(2,406)	29,828	7.46
- overdue for less than 90 days	1,122	(728)	394	64.88
- overdue for 90 to 360 days	7,275	(2,495)	4,780	34.30
- overdue for more than 360 days	20,191	(12,615)	7,576	62.48
Total impaired loans	60,822	(18,244)	42,578	30.00
Total individually significant corporate loans	216,385	(18,517)	197,868	8.56

Information on the quality of individually significant corporate loans at 31 December 2016 is provided in the table below:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to gross loans (%)*
Individually significant corporate loans				
Loans without individual signs of impairment	98,719	(168)	98,551	0.17
Impaired loans:				
- not overdue	41,407	(3,801)	37,606	9.18
- overdue for less than 90 days	–	–	–	–
- overdue for 90 to 360 days	1,206	(315)	891	26.12
- overdue for more than 360 days	32,634	(20,586)	12,048	63.08
Total impaired loans	75,247	(24,702)	50,545	32.83
Total individually significant corporate loans	173,966	(24,870)	149,096	14.30

A loan is impaired as a result of one or several events occurred after the initial recognition of a loan and having an impact on the estimated future cash flows on the loan that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The Group estimates the amount of allowance for impairment of corporate loans based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual indications of impairment has been identified.

Analysis of movements in the allowance for impairment

Movements in the allowance for impairment of corporate loans that are individually significant for the years ended 31 December 2017 and 2016 are as follows:

	2017	*2016*
At 1 January	(24,870)	(26,898)
Net reversal	3,061	2,613
Write-offs	10,985	6,433
Recoveries of amounts previously written-off	(7,615)	(7,376)
Effect of changes in exchange rates	(78)	358
At 31 December	(18,517)	(24,870)

(millions of tenge)

16. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals

The following table provides information on the credit quality of corporate loans that are individually insignificant and loans to individuals collectively assessed for impairment as at 31 December 2017:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to gross loans (%)*
Individually insignificant corporate loans				
Not overdue	97,574	(498)	97,076	0.51
Overdue for less than 30 days	1,225	(5)	1,220	0.41
Overdue for 30 to 89 days	1,131	(5)	1,126	0.44
Overdue for 90 to 179 days	1,706	(28)	1,678	1.64
Overdue for 180 to 360 days	1,505	(240)	1,265	15.95
Overdue for more than 360 days	25,172	(5,876)	19,296	23.34
Total individually insignificant corporate loans	128,313	(6,652)	121,661	5.18
Mortgage loans				
Not overdue	49,133	(7)	49,126	0.01
Overdue for less than 30 days	2,429	(3)	2,426	0.12
Overdue for 30 to 89 days	1,218	(1)	1,217	0.08
Overdue for 90 to 179 days	1,182	(464)	718	39.26
Overdue for 180 to 360 days	1,087	(227)	860	20.88
Overdue for more than 360 days	38,086	(8,028)	30,058	21.08
Total mortgage loans	93,135	(8,730)	84,405	9.37
Consumer loans				
Not overdue	73,108	(213)	72,895	0.29
Overdue for less than 30 days	2,919	(159)	2,760	5.45
Overdue for 30 to 89 days	1,017	(357)	660	35.10
Overdue for 90 to 179 days	1,033	(668)	365	64.67
Overdue for 180 to 360 days	1,733	(1,293)	440	74.61
Overdue for more than 360 days	4,351	(3,258)	1,093	74.88
Total consumer loans	84,161	(5,948)	78,213	7.07
Car loans				
Not overdue	1,453	–	1,453	0.00
Overdue for less than 30 days	18	–	18	0.00
Overdue for 30 to 89 days	–	–	–	0.00
Overdue for 90 to 179 days	6	–	6	0.00
Overdue for 180 to 360 days	11	(1)	10	9.09
Overdue for more than 360 days	1,992	(123)	1,869	6.17
Total car loans	3,480	(124)	3,356	3.56
Credit cards				
Not overdue	347	(1)	346	0.29
Overdue for less than 30 days	19	(1)	18	5.26
Overdue for 30 to 89 days	2	(1)	1	50.00
Overdue for 90 to 179 days	1	(1)	–	100.00
Overdue for 180 to 360 days	2	(1)	1	50.00
Overdue for more than 360 days	112	(82)	30	73.21
Total credit cards	483	(87)	396	18.01
Other loans secured by collateral				
Not overdue	111,730	(42)	111,688	0.04
Overdue for less than 30 days	8,519	(4)	8,515	0.05
Overdue for 30 to 89 days	6,386	(1,047)	5,339	16.40
Overdue for 90 to 179 days	2,481	(115)	2,366	4.64
Overdue for 180 to 360 days	3,003	(138)	2,865	4.60
Overdue for more than 360 days	66,558	(11,379)	55,179	17.10
Total other loans secured by collateral	198,677	(12,725)	185,952	6.40
Total individually insignificant corporate loans and loans to individuals	508,249	(34,266)	473,983	6.74

(millions of tenge)

16. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

The following table provides information on the credit quality of corporate loans that are individually insignificant and loans to individuals collectively assessed for impairment as at 31 December 2016:

	Loans before allowance for impairment	*Allowance for impairment*	*Loans net of allowance for impairment*	*Allowance for impairment to gross loans (%)*
Individually insignificant corporate loans				
Not overdue	85,541	(296)	85,245	0.35
Overdue for less than 30 days	1,291	(13)	1,278	1.01
Overdue for 30 to 89 days	1,083	(19)	1,064	1.75
Overdue for 90 to 179 days	1,614	(125)	1,489	7.74
Overdue for 180 to 360 days	1,039	(226)	813	21.75
Overdue for more than 360 days	27,129	(6,283)	20,846	23.16
Total individually insignificant corporate loans	117,697	(6,962)	110,735	5.92
Mortgage loans				
Not overdue	56,287	(7)	56,280	0.01
Overdue for less than 30 days	2,435	(3)	2,432	0.12
Overdue for 30 to 89 days	1,396	(236)	1,160	16.91
Overdue for 90 to 179 days	816	(29)	787	3.55
Overdue for 180 to 360 days	1,959	(493)	1,466	25.17
Overdue for more than 360 days	39,709	(7,035)	32,674	17.72
Total mortgage loans	102,602	(7,803)	94,799	7.61
Consumer loans				
Not overdue	72,548	(165)	72,383	0.23
Overdue for less than 30 days	3,100	(110)	2,990	3.55
Overdue for 30 to 89 days	1,115	(222)	893	19.91
Overdue for 90 to 179 days	1,077	(523)	554	48.56
Overdue for 180 to 360 days	1,873	(1,405)	468	75.01
Overdue for more than 360 days	1,770	(1,329)	441	75.08
Total consumer loans	81,483	(3,754)	77,729	4.61
Car loans				
Not overdue	1,576	–	1,576	0.00
Overdue for less than 30 days	5	–	5	0.00
Overdue for 30 to 89 days	8	–	8	0.00
Overdue for 180 to 360 days	63	(12)	51	19.05
Overdue for more than 360 days	1,826	(44)	1,782	2.41
Total car loans	3,478	(56)	3,422	1.61
Credit cards				
Not overdue	276	(1)	275	0.36
Overdue for less than 30 days	2	–	2	0.00
Overdue for 30 to 89 days	2	–	2	0.00
Overdue for 90 to 179 days	1	(1)	–	100.00
Overdue for 180 to 360 days	6	(5)	1	83.33
Overdue for more than 360 days	112	(92)	20	82.51
Total credit cards	399	(99)	300	24.84
Other loans secured by collateral				
Not overdue	114,008	(23)	113,985	0.02
Overdue for less than 30 days	7,514	(15)	7,499	0.20
Overdue for 30 to 89 days	3,164	(31)	3,133	0.98
Overdue for 90 to 179 days	1,925	(111)	1,814	5.77
Overdue for 180 to 360 days	3,453	(1,339)	2,114	38.78
Overdue for more than 360 days	70,168	(10,871)	59,297	15.49
Total other loans secured by collateral	200,232	(12,390)	187,842	6.19
Total individually insignificant corporate loans and loans to individuals	505,891	(31,064)	474,827	6.14

(millions of tenge)

16. Loans to customers (continued)

Quality of individually insignificant corporate loans and loans to individuals (continued)

As at 31 December 2017 and 2016, certain loans were restructured and recognised in accordance with the changed conditions as presented in the above tables, but prior to successful completion of a certain trial period they were reviewed for impairment as if there were no changes in the repayment schedule.

The Group estimates loan impairment based on past loss experience on each type of loans. Significant assumptions used by the management in determining the amount of allowance for impairment of individually insignificant corporate loans, loans issued to individuals, and individually significant corporate loans without individual signs of impairment include:

- loss migration rates are constant and can be estimated based on a 12 month loss migration pattern;
- restructured loans have a probation period of 6 months; during this period restructured loans are considered as overdue loans. If during the trial term the loan servicing is performed in accordance with the restructured terms, it is treated as "recovered";
- delay in proceeds from sale of collateral is 12 months for movable property and 24 months for immovable property.

Analysis of movements in the allowance for impairment

Movements in the loan impairment allowance by classes of corporate loans that are not individually significant and loans to individuals for 2017 are as follows:

	Individually insignificant corporate loans	*Mortgage loans*	*Consumer loans*	*Car loans*	*Credit cards*	*Other loans secured by collateral*	*Total*
At 1 January	(6,962)	(7,803)	(3,754)	(56)	(99)	(12,390)	(31,064)
Net (charge)/reversal	(359)	616	(2,051)	(52)	51	(986)	(2,781)
Write-offs	4,454	2,836	923	126	4	7,418	15,761
Recoveries of amounts previously written-off	(3,797)	(4,385)	(1,066)	(142)	(41)	(6,776)	(16,207)
Effect of changes in exchange rates	12	6	–	–	(2)	9	25
At 31 December	(6,652)	(8,730)	(5,948)	(124)	(87)	(12,725)	(34,266)

Movements in the loan impairment allowance by classes of corporate loans that are not individually significant and loans to individuals for 2016 are as follows:

	Individually insignificant corporate loans	*Mortgage loans*	*Consumer loans*	*Car loans*	*Credit cards*	*Other loans secured by collateral*	*Total*
At 1 January	(5,040)	(5,378)	(3,480)	(241)	(803)	(9,043)	(23,985)
Net (charge)/reversal	(1,197)	1,401	(3,639)	55	(58)	(1,423)	(4,861)
Write-offs	2,029	3,038	4,427	272	815	6,686	17,267
Recoveries of amounts previously written-off	(2,847)	(6,909)	(1,062)	(143)	(54)	(8,712)	(19,727)
Effect of changes in exchange rates	93	45	–	1	1	102	242
At 31 December	(6,962)	(7,803)	(3,754)	(56)	(99)	(12,390)	(31,064)

(millions of tenge)

16. Loans to customers (continued)

Analysis of collateral and other enhancements

Individually significant corporate loans are subject to assessment and impairment testing on an individual basis. The creditworthiness of a corporate customer is generally the main indicator of the issued loan quality. However, collateral represents additional securities, and the Group generally asks corporate borrowers for its provision.

Guarantees and suretyship from individuals including shareholders of borrowers represented by small and medium-sized businesses are not taken into account in impairment assessment. Recoverability of neither past due nor individually impaired loans mainly depends on creditworthiness of the borrower rather than on value of collateral.

For certain mortgage loans and other loans to individuals, the Group updates the estimated values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also carry out a specific individual valuation of collateral at each reporting date where indications of impairments exist.

As at 31 December 2017, loans net of allowance with overdue over 90 days amount to KZT 130,454 million (31 December 2016: KZT 137,556 million). As at 31 December 2017 total fair value of collateral securing such loans, limited to the amount of the before provision for impairment book value of the respective loan, was equal to KZT 137,106 million (31 December 2016: KZT 146,361 million).

Repossessed collateral

During 2016, the Group repossessed collateral on loans to customers, represented by real estate, with a carrying amount totalling to KZT 17,119 million (2016: KZT 24,206 million). The Group’s policy assumes sale of these assets as soon as it is practicable.

Industry and geographical analysis of loans

Loans were issued primarily to customers operating within the Republic of Kazakhstan in the following economic sectors:

	31 December 2017	*31 December 2016*
Loans to retail customers	379,936	388,194
Real estate activities	59,240	56,678
Wholesale trading	58,995	47,497
Services provided by small and medium businesses	46,263	45,708
Construction	42,621	36,060
Metallurgy	39,172	25,605
Food industry	18,389	7,767
Retail services	17,500	15,306
Financial services	12,009	11,006
Agriculture	7,868	7,412
Production of metal goods	7,765	6,410
Transportation	7,164	10,698
Chemical industry	4,472	5,623
Textile production	3,485	3,664
Manufacturing	2,572	3,338
Production of crude oil and natural gas	913	1,543
Machine-engineering	780	420
Post and communication	527	393
Other	14,963	6,535
	724,634	679,857
Allowance for impairment	(52,783)	(55,934)
	671,851	623,923

Concentration of loans to customers

As at 31 December 2017 and 2016, the Group has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of total loans to customers.

(millions of tenge)

17. Investment securities

Investment securities available-for-sale comprise:

	31 December 2017	*31 December 2016*
Debt instruments		
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB-	47,109	11,280
Total government bonds	47,109	11,280
Corporate bonds		
Rated from BBB- to BBB+	6,027	4,797
Total corporate bonds	6,027	4,797
Bonds of banks		
Rated from BB- to BB+	3,762	3,678
Rated from B- to B+	1,661	–
Total bonds of banks	5,423	3,678
	58,559	19,755

The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit rating agency or analogues of other international agencies.

As at 31 December 2017, treasury bills of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 10,421 million were pledged under the repurchase agreements entered into at KASE.

Investment securities held-to-maturity comprise:

	31 December 2017	*31 December 2016*
Debt instruments		
Government bonds		
Notes of the NBRK rated BBB-	13,610	–
Coupon bonds of foreign countries rated BB+	672	–
Total government bonds	14,282	–
Corporate bonds		
Rated from BB- to BB+	5,377	–
Total corporate bonds	5,377	–
Bonds of banks		
Rated from BB- to BB+	4,180	–
Total debt instruments	4,180	–
	23,839	–

(millions of tenge)

18. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Computers*	*Vehicles*	*Construction-in-progress and equipment for installation*	*Other*	*Total*
Cost							
1 January 2016	1,711	18,444	2,705	483	17,140	12,478	52,961
Additions	96	3,421	–	38	10,554	73	14,182
Recovery of amounts previously written-off	–	–	–	–	–	266	266
Transfers	28	12,710	518	–	(16,531)	3,275	–
Disposals	–	(384)	(265)	(73)	(67)	(1,466)	(2,255)
31 December 2016	1,835	34,191	2,958	448	11,096	14,626	65,154
Additions	–	505	556	2	1,992	4,038	7,093
Recovery of amounts previously written-off		–	–	–	–	366	366
Transfers	–	4,359	208	(3)	(8,928)	4,364	–
Disposals	(81)	(6,374)	(545)	(50)	–	(1,685)	(8,735)
31 December 2017	1,754	32,681	3,177	397	4,160	21,709	63,878
Accumulated depreciation and impairment							
1 January 2016	–	(1,538)	(2,178)	(196)	–	(9,843)	(13,755)
Depreciation charge	–	(737)	(225)	(64)	–	(1,448)	(2,474)
Disposals	–	30	265	41	–	1,437	1,773
31 December 2016	–	(2,245)	(2,138)	(219)	–	(9,854)	(14,456)
Depreciation charge	–	(954)	(317)	(58)	–	(2,024)	(3,353)
Transfers	–	–	–	–	–	–	–
Disposals	–	900	544	46	–	1,450	2,940
31 December 2017	–	(2,299)	(1,911)	(231)	–	(10,428)	(14,869)
Net book value							
1 January 2016	1,711	16,906	527	287	17,140	2,635	39,206
31 December 2016	1,835	31,946	820	229	11,096	4,772	50,698
31 December 2017	1,754	30,382	1,266	166	4,160	11,281	49,009

(millions of tenge)

19. Other assets

Other assets comprise:

	31 December 2017	*31 December 2016*
Repossessed collaterals, held for sale	61,346	56,575
Other receivables from banking activities	15,520	13,630
Prepayments and other receivables	13,164	7,601
Long-term assets held for sale	5,047	–
Prepaid taxes, other than corporate income tax	4,333	2,788
Accrued receivables on return of instruments unclaimed by creditors	3,139	–
Investment property	1,404	1,448
Inventory	462	693
Current corporate income tax prepaid	24	24
Other	107	82
Total other assets	104,546	82,841
Allowance for impairment	(2,777)	(2,450)
	101,769	80,391

In 2017, the Group took possession of collaterals with a total value of KZT 17,119 million (2016: KZT 24,206 million). Even though the Bank is currently working actively to dispose these assets, most of them have not been sold within short period of time. Management still intends to sell the repossessed collateral.

On 15 December 2017, a three-year period, during which creditors could submit their settlement instructions to receive entitlements under the Bank's 2014 restructuring, including cash, Eurobonds denominated in US dollars and GDRs, expired. During 2017, the Group recognized amount receivable on return of instruments unclaimed by creditors of KZT 3,139 million. Gain from return of instruments unclaimed by creditors in the consolidated statement of comprehensive income includes gain from return of cash and gain Eurobonds issued by the Bank of KZT 1,647 million and KZT 1,492 million, respectively. On 4 January and 5 January 2018, cash, Eurobonds issued and GDRs were transferred by the distribution agent to the Bank's accounts.

Changes in impairment allowance were as follows:

	2017	*2016*
At 1 January	(2,450)	(4,045)
Net (charge)/reversal (Note 9)	(363)	240
Write-offs	20	1,261
Effect of changes in exchange rates	16	94
At 31 December	(2,777)	(2,450)

20. Current accounts and deposits of customers

Current accounts and deposits of customers comprise:

	31 December 2017	*31 December 2016*
Current accounts and demand deposits		
- Retail customers	39,941	28,570
- Corporate customers	178,949	111,696
Time deposits		
- Retail customers	405,416	374,820
- Corporate customers	293,706	242,061
Guarantee deposits		
- Retail customers	9,801	4,246
- Corporate customers	53,412	41,442
	981,225	802,835

(millions of tenge)

20. Current accounts and deposits of customers (continued)

Concentration of current accounts and deposits of customers

As at 31 December 2017 and 2016, the Group had one customer whose balances exceeded 10% of total customer accounts and deposits. As at 31 December 2017 the outstanding balance of current accounts and deposits of this customer was KZT 152,987 million (31 December 2016: KZT 146,886 million).

As at 31 December 2017 time deposits include deposits of individuals in the amount of KZT 405,416 million (31 December 2016: KZT 374,820 million). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay time deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

21. Amounts due to banks and other financial institutions

Amounts due to banks and other financial institutions include the following:

	31 December 2017	*31 December 2016*
Loans from governmental organizations	52,705	54,788
Loans from other financial institutions	21,848	13,473
Current accounts and deposits of banks	1,341	891
	75,894	69,152

As at 31 December 2017, loans from governmental organizations include loans from Entrepreneurship Development Fund "Damu" JSC and Development Bank of Kazakhstan JSC in the amount of KZT 21,193 million and KZT 9,684 million (31 December 2016: KZT 17,364 million and KZT 15,292 million, respectively), received as part of the state program for support small and medium-sized businesses by the banking sector. The loans are denominated in KZT, bear interest rates from 2.0% to 8.5% per annum and mature in 2018-2035.

As at 31 December 2017 loans from governmental organizations also include loan in the amount of KZT 20,453 million (31 December 2016: KZT 20,402 million) received from Fund of Problem Loans JSC as part of the governmental program for refinancing of mortgage and housing loans to customers. The loan is denominated in tenge, has an interest rate of 2.99% per annum and matures in 2035.

As at 31 December 2017 loans from other financial institutions included loans in the amount of KZT 18,134 million (31 December 2016: KZT 9,748 million) received from European Bank for Reconstruction and Development as part of the program for supporting of investments in micro, small and medium businesses in the Republic of Kazakhstan and women in business. The loans are denominated in tenge, bear interest rate of 9.5% per annum and mature in 2019-2020.

22. Debt securities issued

Debt securities issued include the following:

	31 December 2017	*31 December 2016*
Eurobonds denominated in US dollars	74,273	83,927
Bonds denominated in tenge	50,848	50,494
	125,121	134,421

As at 31 December 2017, Eurobonds denominated in USD include two types of instruments: international bonds with the carrying amount of KZT 62,361 million (31 December 2016: KZT 71,996 million) maturing in 2024 and bearing a coupon of 11.75% per annum, paid semi-annually, issued in exchange for restructured debt and international bonds listed in the London Stock Exchange with the carrying amount of KZT 11,912 million (31 December 2016: KZT 11,931 million) maturing in 2022 and bearing a coupon of 14% per annum, paid semiannually, that were assumed as a result of merger with Temirbank JSC in 2014.

Bonds denominated in tenge include two types of instruments: bonds with the carrying amount of KZT 3,992 million (31 December 2016: KZT 4,037 million) maturing in 2020 and bearing a coupon of 1% + inflation index per annum (capped at 12% per annum), paid semi-annually, and bonds with the carrying amount of KZT 46,856 million (31 December 2016: KZT 46,457 million) placed by the Group in 2015, maturing in 2025 and bearing a coupon of 10.13% per annum, paid semi-annually. Bonds denominated in tenge and maturing in 2020 are secured by the Group's mortgage loans to customers with total value of 110% of the nominal value of the bonds, which amounts to KZT 4,291 million as at 31 December 2017 and 2016.

(millions of tenge)

23. Subordinated debt

As at 31 December 2017 and 2016 subordinated debt included subordinated bonds denominated in tenge, maturing in 2020-2031 with a fixed coupon rate of 8% per annum. The coupon is paid semi-annually.

24. Share capital

The number of authorised, issued and outstanding common shares and share capital as at 31 December 2017 and 2016 are as follows:

	31 December 2017	*31 December 2016*
Common shares		
Number of authorised shares	150,003,000,000	150,003,000,000
Number of issued shares	92,387,104,089	92,387,104,089
Number of re-acquired shares	1,005,510,843	551,028,376
Number of outstanding shares	91,381,593,246	91,836,075,713
Total share capital, millions of tenge	331,522	332,094

Movements in outstanding, placed and fully paid shares were as follows:

	Number of common shares	*Placement value of common shares*
At 1 January 2016	92,387,101,213	332,814
Repurchase of own shares	(551,025,500)	(720)
At 31 December 2016	91,836,075,713	332,094
Repurchase of own shares	(454,482,467)	(572)
At 31 December 2017	91,381,593,246	331,522

Based on the decision taken at the annual general meeting of shareholders held on 15 May 2017, the Bank declared dividends on common shares for the year ended 31 December 2016 in the amount of KZT 4,534 million or KZT 0.05 per common share including taxes. During 2016, the Bank didn't declare or pay any dividends on common shares.

25. Earnings per share

The following table reflects net profit and share information used in the basic and diluted earnings per share computations:

	2017	*2016*
Net profit	19,655	11,787
The weighted average number of common shares for the year	91,466,718,199	92,332,569,284
Basic and diluted earnings per share, in tenge	0.21	0.13

As at 31 December 2017 and 2016, the Bank did not have any financial instruments diluting earnings per share.

26. Risk management

Introduction

Risk management is inherent in the bank activities and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk, liquidity risk and operational risks.

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to monitor continuously risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, bank products and services offered and emerging best practice.

(millions of tenge)

26. Risk management (continued)

Risk management structure

Board of Directors

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving large exposures.

Management Board

The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Head of Risk Service (Risk Department and Collateral Department) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Risk Committees

Credit, market and liquidity risks, both at the portfolio and transactional levels are managed and controlled through a system of credit committees and the Asset and Liability Management Committee ("ALCO"). For improving the efficiency of decision-making process, the Group has established a hierarchy of credit committees depending on the type and amount of risk exposure.

Risk Department

Both external and internal risk factors are identified and managed throughout the Group. Particular attention is given to identifying the full range of risk factors and determining the level of adequacy of the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

Bank Treasury

The Bank's Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

(millions of tenge)

26. Risk management (continued)

Risk management structure (continued)

Risk measurement and reporting systems (continued)

Information collected from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the risk committees, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and marker exchange rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO based on recommendations of the Market Risk Management Division of the Risk Department and subsequently agreed by the Board of Directors.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board and the Board of Directors.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate movements scenarios.

(millions of tenge)

26. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk is managed principally through monitoring interest rate gaps. As the majority of the financial instruments bear fixed interest rates the interest gap analysis is similar to the maturity analysis.

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit and equity to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 2016 is as follows:

	2017	*2016*
	Effect on profit	*Effect on profit*
Decrease by 100 basis points	1,226	747
Increase by 300 basis points	(3,678)	(2,241)

An analysis of the sensitivity of net profit or loss and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and available-for-sale securities due to changes in interest rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves is as follows:

	2017		*2016*	
	Effect on profit	*Effect on other comp-rehensive income*	*Effect on profit*	*Effect on other comp-rehensive income*
Decrease by 100 basis points	2,926	1,932	2,752	781
Increase by 300 basis points	(7,746)	(5,234)	(6,881)	(2,028)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Despite the fact that the Group hedges its exposure to currency risk, such transactions do not qualify as hedging relationships in accordance with IFRS.

(millions of tenge)

26. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The following table shows financial assets and liabilities by foreign currencies:

At 31 December 2017	*Tenge*	*US dollar*	*Euro*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	32,292	185,333	12,455	1,740	231,820
Amounts due from financial institutions	3,171	3,222	–	–	6,393
Trading securities	213,393	77,526	–	–	290,919
Loans to customers	520,256	151,080	95	420	671,851
Available-for-sale securities	47,184	11,375	–	–	58,559
Held-to-maturity securities	–	23,839	–	–	23,839
Other financial assets	18,123	4,436	378	–	22,937
Total financial assets	834,419	456,811	12,928	2,160	1,306,318
Liabilities					
Current accounts and deposits of customers	607,730	358,855	12,744	1,896	981,225
Amounts due to banks and other financial institutions	70,840	4,880	174	–	75,894
Amounts payable under repurchase agreements	36,639	–	–	–	36,639
Debt securities issued	50,848	74,273	–	–	125,121
Subordinated debt	22,740	–	–	–	22,740
Other financial liabilities	6,625	482	30	5	7,142
Total financial liabilities	795,422	438,490	12,948	1,901	1,248,761
Net position	38,997	18,321	(20)	259	57,557
Impact of derivative instruments held for the purpose of risk management	18,240	(18,278)	–	–	(38)
Net position adjusted for impact of derivative instruments held for the purpose of risk management	57,237	43	(20)	259	57,519

(millions of tenge)

26. Risk management (continued)

Market risk (continued)

Currency risk (continued)

At 31 December 2016	*Tenge*	*US dollar*	*Euro*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	21,606	143,260	10,943	1,432	177,241
Amounts due from financial institutions	8,635	2,047	–	–	10,682
Trading securities	133,453	73,728	–	–	207,181
Loans to customers	482,452	141,039	85	347	623,923
Available-for-sale securities	9,757	9,998	–	–	19,755
Other financial assets	8,860	409	13	1	9,283
Total financial assets	664,763	370,481	11,041	1,780	1,048,065
Liabilities					
Current accounts and deposits of customers	444,893	345,767	10,919	1,256	802,835
Amounts due to banks and other financial institutions	64,536	4,513	103	–	69,152
Debt securities issued	50,494	83,927	–	–	134,421
Subordinated debt	22,740	–	–	–	22,740
Other financial liabilities	6,671	189	47	–	6,907
Total financial liabilities	589,334	434,396	11,069	1,256	1,036,055
Net position	75,429	(63,915)	(28)	524	12,010
Impact of derivative instruments held for the purpose of risk management	(34,624)	63,325	–	–	28,701
Net position adjusted for impact of derivative instruments held for the purpose of risk management	40,805	(590)	(28)	524	40,711

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. This analysis was made on a net of tax basis and is based on foreign currency exchange rate movements that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. Negative amounts in the table reflect a potential net reduction in profit or equity, while a positive amount reflects a net potential increase.

	2017		*2016*	
Currency	*Increase in currency rate, %*	*Effect on profit*	*Increase in currency rate, %*	*Effect on profit*
US dollar	10	4	13	(77)
Euro	13.5	(3)	15	(4)

	2017		*2016*	
Currency	*Decrease in currency rate, %*	*Effect on profit*	*Decrease in currency rate, %*	*Effect on profit*
US dollar	(10)	(4)	13	77
Euro	(9.5)	2	15	4

(millions of tenge)

26. Risk management (continued)

Credit risk

Credit risk is the risk that the Group will incur a financial loss because its customers or counterparties failed to discharge their contractual obligations. The Group has policies and procedures in place to manage credit exposures including guidelines to limit credit exposure concentration and actively monitor the credit exposure. The credit policy is reviewed and approved by the Management Board.

A credit policy establishes:

- procedures for review and approval of loan applications;
- methodology of borrowers' creditworthiness assessment (corporate clients and individuals);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for collateral assessment;
- requirements on loan documentation;
- procedures of on-going monitoring of loans and other credit risk bearing products.

Corporate loan credit applications are originated by the relevant client relations managers and are then passed on to the Credit Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the borrower's business and financial performance. The loan applications and reports are then independently reviewed by the Risk Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of documents provided by the Loan Department and the Risk Department.

The Group continuously monitors the performance of individual loans and regularly assesses the creditworthiness of its borrowers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. Retail loan applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual borrower analysis, the Risk Department assesses the loan portfolio as a whole with regard to concentration of loans and market risks.

The carrying amount of components of the consolidated statement of financial position, including derivatives, without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans to banks, except when securities are held as part of reverse repurchase agreements and borrowings collateralised by securities.

The maximum exposure to credit risk in relation to contingent liabilities at the reporting date is presented in Note 30.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group's internal credit ratings. Rating assigned by international rating agency Standard & Poor's or other rating agency (Moody's Investors service or Fitch) is one of the components used by the Group in conducting analysis of credit quality of financial assets. Analysis of credit quality is disclosed in respective notes to the consolidated financial statements of the Group.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(millions of tenge)

26. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity risk management. Due to diversity of transactions and a related uncertainty, exact matching of maturities of assets and liabilities is not a usual practice for financial institutions. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to meet all cash flow obligations as they become due. Liquidity management policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising issued debt securities, long-term and short-term loans from other banks, deposits of the main corporate customers and individuals as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity management policy includes:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against liquidity gaps;
- maintaining liquidity and funding contingency plans;
- monitoring compliance with liquidity ratios implied by regulatory requirements.

The Treasury of the Bank receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of projected cash flows arising from future business. The Treasury then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more unfavorable market conditions is performed by the Treasury. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury.

(millions of tenge)

26. Risk management (continued)

Liquidity risk (continued)

The following tables show the undiscounted contractual cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liabilities or credit related commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2017 is as follows:

	On demand and less than 1 months	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Without maturity*	*Total*	*Carrying amount*
Non-derivative financial assets								
Cash and cash equivalents	231,836	–	–	–	–	–	231,836	231,820
Amounts due from financial institutions	9	41	3,267	2,806	546	–	6,669	6,393
Trading securities	104,353	40,065	101,610	27,294	28,338	73	301,733	290,919
Loans to customers	141,227	43,835	168,217	666,837	421,951	–	1,442,067	671,851
Investment securities available-for-sale	1,428	285	5,369	54,268	14,780	–	76,130	58,559
Investment securities held-to-maturity	77	110	970	5,291	35,653	–	42,101	23,839
Other financial assets	16,481	389	2,128	5,228	12	–	24,238	22,937
Total non-derivative financial assets	495,411	84,725	281,561	761,724	501,280	73	2,124,774	1,306,318
Non-derivative financial liabilities								
Current accounts and deposits of customers	(360,040)	(44,934)	(283,808)	(179,421)	(225,210)	–	(1,093,413)	(981,225)
Amounts due to banks and other financial institutions	(1,401)	(1,767)	(9,084)	(24,301)	(58,897)	–	(95,450)	(75,894)
Amounts payable under repurchase agreements	(36,704)	–	–	–	–	–	(36,704)	(36,639)
Debt securities issued	(1,697)	(156)	(18,661)	(96,188)	(101,661)	–	(218,363)	(125,121)
Subordinated debt	(25)	–	(1,674)	(14,789)	(19,983)	–	(36,471)	(22,740)
Other financial liabilities	(7,109)	(30)	(2)	–	(1)	–	(7,142)	(7,142)
Total non-derivative financial liabilities	(406,976)	(46,887)	(313,229)	(314,699)	(405,752)	–	(1,487,543)	(1,248,761)
Net liquidity gap on financial assets and financial liabilities	88,435	37,838	(31,668)	447,025	95,528	73	637,231	57,557
Contingent liabilities	(6,604)	(2,622)	(2,279)	(8,853)	–	–	(20,358)	

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the right to receive the accrued interest income. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. Accordingly, in the above table, deposits of individuals are presented in accordance with contractual terms with consideration of this assumption.

(millions of tenge)

26. Risk management (continued)

Liquidity risk (continued)

Management expects that the repayment of liabilities and disposal of assets may be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows on these financial assets and liabilities may differ from contractual terms.

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2016 is as follows:

	On demand and less than 1 months	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Without maturity*	*Total*	*Carrying amount*
Non-derivative financial assets								
Cash and cash equivalents	177,241	–	–	–	–	–	177,241	177,241
Amounts due from financial institutions	–	–	7,119	–	4,130	–	11,249	10,682
Trading securities	53,003	63,126	53,183	18,476	36,837	84	224,709	207,181
Loans to customers	151,984	38,184	146,059	396,191	160,872	–	893,290	623,923
Investment securities available -for-sale	320	213	5,743	9,949	8,786	–	25,011	19,755
Other financial assets	6,586	2	39	2,350	306	–	9,283	9,283
Total non-derivative financial assets	389,134	101,525	212,143	426,966	210,931	84	1,340,783	1,048,065
Non-derivative financial liabilities								
Current accounts and deposits of customers	(228,286)	(34,433)	(327,052)	(94,390)	(245,818)	–	(929,979)	(802,835)
Amounts due to banks and other financial institutions	(1,289)	(478)	(9,385)	(19,914)	(58,552)	–	(89,618)	(69,152)
Debt securities issued	(4,681)	(293)	(20,846)	(95,424)	(131,655)	–	(252,899)	(134,421)
Subordinated debt	(50)	–	(2,113)	(8,984)	(27,461)	–	(38,608)	(22,740)
Other financial liabilities	(6,889)	(14)	(3)	(1)	–	–	(6,907)	(6,907)
Total non-derivative financial liabilities	(241,195)	(35,218)	(359,399)	(218,713)	(463,486)	–	(1,318,011)	(1,036,055)
Net liquidity gap on financial assets and financial liabilities	147,939	66,307	(147,256)	208,253	(252,555)	84	22,772	12,010
Contingent liabilities	(8,662)	(1,564)	(9,652)	(5,056)	–	–	(24,934)	

(millions of tenge)

27. Maturity analysis of assets and liabilities

The following table shows the expected maturities of assets and liabilities as at 31 December 2017 and 2016:

At 31 December 2017	*Less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Without maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	231,820	–	–	–	–	–	–	231,820
Amounts due from financial institutions	–	–	3,041	2,806	546	–	–	6,393
Trading securities	290,919	–	–	–	–	–	–	290,919
Loans to customers	21,044	30,618	106,549	309,152	91,172	–	113,316	671,851
Derivative financial assets	–	–	–	–	–	–	–	–
Investment securities available-for-sale	1,278	216	2,694	41,717	12,654	–	–	58,559
Investment securities held-to-maturity	68	70	156	674	22,871	–	–	23,839
Property and equipment	–	–	–	–	–	49,009	–	49,009
Intangible assets	–	–	–	–	–	3,741	–	3,741
Deferred tax assets	–	–	–	6,740	–	–	–	6,740
Other assets	32,377	103	67,237	100	12	1,404	536	101,769
Total assets	577,506	31,007	179,677	361,189	127,255	54,154	113,852	1,444,640
Liabilities								
Current accounts and deposits of customers	(356,876)	(39,334)	(266,001)	(122,228)	(196,786)	–	–	(981,225)
Amounts due to banks and other financial institutions	(1,400)	(1,414)	(6,803)	(18,385)	(47,892)	–	–	(75,894)
Amounts payable under repurchase agreements	(36,639)	–	–	–	–	–	–	(36,639)
Debt securities issued	(2,151)	(91)	(8,593)	(44,892)	(69,394)	–	–	(125,121)
Subordinated debt	(25)	–	(321)	(8,189)	(14,205)	–	–	(22,740)
Deferred tax liabilities	–	–	(122)	–	–	–	–	(122)
Other liabilities	(8,243)	(30)	(383)	(41)	(1)	–	–	(8,698)
Total liabilities	(405,334)	(40,869)	(282,223)	(193,735)	(328,278)	–	–	(1,250,439)
Net position	172,172	(9,862)	(102,546)	167,454	(201,023)	54,154	113,852	194,201
Net accumulated position	172,172	162,310	59,770	227,224	26,195	80,355	194,201	

(millions of tenge)

27. Maturity analysis of assets and liabilities (continued)

At 31 December 2016	*Less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Without maturity*	*Overdue*	*Total*
Assets								
Cash and cash equivalents	177,241	–	–	–	–	–	–	177,241
Amounts due from financial institutions	–	–	6,552	–	4,130	–	–	10,682
Trading securities	207,181	–	–	–	–	–	–	207,181
Loans to customers	13,978	25,006	94,590	250,871	107,535	–	131,943	623,923
Derivative financial assets	–	–	30,153	–	–	–	–	30,153
Investment securities available-for-sale	148	98	4,913	7,367	7,229	–	–	19,755
Property and equipment	–	–	–	–	–	50,698	–	50,698
Intangible assets	–	–	–	–	–	3,520	–	3,520
Deferred tax assets	–	–	–	11,633	–	–	–	11,633
Other assets	18,843	26	39	2,350	57,249	1,448	436	80,391
Total assets	417,391	25,130	136,247	272,221	176,143	55,666	132,379	1,215,177
Liabilities								
Current accounts and deposits of customers	(224,934)	(28,337)	(306,624)	(39,210)	(203,730)	–	–	(802,835)
Amounts due to banks and other financial institutions	(1,136)	(132)	(7,339)	(14,039)	(46,506)	–	–	(69,152)
Debt securities issued	(2,151)	(137)	(8,658)	(37,229)	(86,246)	–	–	(134,421)
Subordinated debt	(25)	–	(321)	(2,200)	(20,194)	–	–	(22,740)
Deferred tax liabilities	–	–	(81)	–	–	–	–	(81)
Other liabilities	(8,008)	(14)	(3)	(1)	–	–	–	(8,026)
Total liabilities	(236,254)	(28,620)	(323,026)	(92,679)	(356,676)	–	–	(1,037,255)
Net position	181,137	(3,490)	(186,779)	179,542	(180,533)	55,666	132,379	177,922
Net accumulated position	181,137	177,647	(9,132)	170,410	(10,123)	45,543	177,922	

(millions of tenge)

28. Offsetting of financial instruments

Disclosures in the tables below include information on financial assets and financial liabilities, which:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar financial instruments include derivative financial assets, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the repurchase and reverse repurchase agreements. Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned before maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

As at 31 December 2017 the Group has amounts payable under repurchase agreements for KZT 36,639 million, which were collateralized by trading securities with fair value of KZT 43,145 million and investment securities available-for-sale with fair value 10,421 million (Notes 14 and 17).

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017.

				Related amounts not offset in the consolidated statement of financial position	
At 31 December 2017	*Gross amount of recognised financial liabilities*	*Gross amount of recognised financial assets offset in the consolidated statement of financial position*	*Net amount of financial liabilities presented in the consolidated statement of financial position*	*Financial instruments*	*Net amount*
Amounts payable under repurchase agreements	36,639	–	36,639	(53,566)	(16,927)
	36,639	–	36,639	(53,566)	(16,927)

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

				Related amounts not offset in the consolidated statement of financial position	
At 31 December 2016	*Gross amount of recognised financial assets*	*Gross amount of recognised financial liabilities offset in the consolidated statement of financial position*	*Net amount of financial assets presented in the consolidated statement of financial position*	*Financial instruments*	*Net amount*
Reverse repurchase agreements	1,003	–	1,003	(1,025)	(22)
	1,003	–	1,003	(1,025)	(22)

(millions of tenge)

29. Capital management

The Bank maintains an actively manages capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBRK in supervising the Bank.

As at 31 December 2017 and 2016 the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK sets and monitors capital requirements for the Bank.

Under the current capital requirements set by the NBRK banks have to maintain:

- a ratio of core capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k1) in the value not less than 5.5% in 2017 (2016: 5%);
- a ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1.2) in the value not less than 6.5% in 2017 (2016: 6%);
- a ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k2) in the value not less than 8% in 2017 (2016: 7.5%).

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the charter capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2017 and 2016:

	31 December 2017	*31 December 2016*
Tier 1 capital	187,144	171,964
Tier 2 capital	19,876	21,514
Deduction of regulatory provisions from capital	(247)	–
Total regulatory capital	206,773	193,478
Risk-weighted statutory assets, contingent liabilities, operational and market risk	993,822	856,730
Ratio k1	18.8%	20.1%
Ratio k1.2	18.8%	20.1%
Ratio k.2	20.8%	22.6%

30. Commitments and contingencies

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2017, volatility of crude oil prices continued a negative impact on the Kazakhstan economy. Interest rates of attracting funds in KZT remain high. Combination of these factors resulted in limited access to capital, a high cost of capital and increased uncertainty regarding further economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The management of the Group believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

(millions of tenge)

30. Commitments and contingencies (continued)

Credit related commitments

The Group has contingent liabilities to provide credit resources. These credit related contingencies take the form of approved loans and credit card limits and overdraft facilities.

The Group provides bank guarantees and issues letters of credit to ensure that their customers' obligations to third parties are met. These agreements have fixed limits and generally extend for a period of up to five years.

In providing financial guarantees, credit related contingencies and letters of credit, the Group applies the same risk management policies and procedures used when issuing loans to customers.

The contractual amounts of credit related contingencies are set out in the table by category. The amounts reflected in the table for credit related contingencies assume that the indicated contingencies will be fully settled. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed to fulfil their contractual obligations.

	31 December 2017	*31 December 2016*
Loan and credit line commitments	98,319	85,508
Guarantees issued and similar commitments	20,224	20,984
Letters of credit and other transactions related to contingencies	134	3,950
	118,677	110,442

The loan commitment agreements stipulate the right of the Group to unilaterally withdraw from the agreement should any conditions unfavourable to the Group arise, including change of the refinance rate, inflation, exchange rates and other conditions.

The total outstanding contractual amount of commitments on issuance of loans, letters of credit and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Operating lease commitments

Operating lease commitments that could not be unilaterally cancelled could be presented as follows:

	31 December 2017	*31 December 2016*
Not later than 1 year	1,013	857
1 to 5 years	3,506	2,765
Over 5 years	1,226	1,310
	5,745	4,932

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after maturity. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rent.

During 2017, operating lease payments accounted as expense within profit or loss amount to KZT 1,578 million (2016: KZT 1,697 million) (Note 10).

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group.

Management is unaware of any significant actual, pending or threatened claims against the Group.

(millions of tenge)

30. Commitments and contingencies (continued)

Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. The adequacy of tax assessment in the reporting period may be reviewed during the next five calendar years. However, under certain circumstances a tax year may remain open for a longer period of time.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

31. Related party transactions

Remuneration of members of the Board of Directors and the Management Board

Total remuneration to members of the Management Board and Board of Directors included in general and administrative expenses for 2017 and 2016 is as follows:

	2017	*2016*
Members of the Board of Directors and the Management Board of the Group	1,182	1,491
	1,182	1,491

These amounts include cash benefits in respect of the members of the Board of Directors and the Management Board and related taxes.

As at 31 December 2017 total Group's liabilities on remuneration payments to the members of the Board of Directors and the Management Board were equal to KZT 1,774 million (31 December 2016: KZT 2,750 million) and in accordance with the Decree of NBRK No. 74 from 24 February 2012, should be paid during the period of not less than three years, under the specified conditions.

Transactions with related parties

Other related parties include the key management personnel and entities jointly controlled by the key management personnel. The outstanding balances and the related average effective interest rates as at 31 December 2017 and related income or expense amounts from transactions with related parties for 2017 are as follows:

	Shareholders		*Entities under common control*		*Other related parties*		*Total*
	In million tenge	*Average effective interest rate, (%)*	*In million tenge*	*Average effective interest rate, (%)*	*In million tenge*	*Average effective interest rate, (%)*	*In million tenge*
Assets							
Amounts due from financial institutions	–	–	2,000	12.5	–	–	2,000
Loans to customers	–	–	–	–	341	8.0	341
Other assets	–	–	–	–	–	–	–
Liabilities							
Current accounts and deposits of customers	278	1.1	2,412	0.3	13,149	1.5	15,839
Amounts due to banks and other financial institutions	–	–	1,341	–	–	–	1,341
Other liabilities	–	–	12	–	67	–	79
Contingent liabilities	–	–	–	–	4	–	4

(millions of tenge)

31. Related party transactions (continued)

Transactions with related parties (continued)

	Shareholder	*Entities under common control*	*Other related parties*	*Total*
Income / (expense)				
Interest income	–	425	51	476
Interest expense	(36)	(15)	(480)	(531)
Commission income	–	16	12	28

The outstanding balances and the related average effective rates as at 31 December 2016, and related income or expense from transactions with other related parties for 2016, are as follows:

	Shareholder		*Entities under common control*		*Other related parties*		*Total*
	In million tenge	*Average effective interest rate, (%)*	*In million tenge*	*Average effective interest rate, (%)*	*In million tenge*	*Average effective interest rate, (%)*	*In million tenge*
Assets							
Amounts due from financial institutions	–	–	5,000	14.0	–	–	5,000
Loans to customers	–	–	818	2.0	540	19.3	1,358
Other assets	–	–	15	–	36	–	51
Liabilities							
Current accounts and deposits of customers	1,775	2.0	1,888	3.1	16,341	3.1	20,004
Amounts due to banks and other financial institutions	–	–	891	–	–	–	891
Contingent liabilities	1,775	2.0	1,888	3.1	16,341	3.1	20,004

	Shareholders	*Entities under common control*	*Other related parties*	*Total*
Income / (expense)				
Interest income	–	730	177	907
Interest expense	(42)	(3)	(320)	(365)
Commission income	–	9	8	17

32. Segment information

The Group has six reporting segments and business lines ("Other" segment is indicated separately with description of transactions, which are not related to activities of business lines). These segments / business lines offer a variety of products and services in the financial/banking area. The following is a brief description of transactions of each segment.

- Corporate business (CB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with corporate clients (large entities and individual entrepreneurs);
- Small and medium businesses (SMB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with small and medium business clients (legal entities and individual entrepreneurs;
- Retail banking (RB) – includes issuance of loans, attracting deposits, settlement and cash services, exchange transactions and other transactions with retail clients (individuals);

(millions of tenge)

32. Segment information (continued)

- Heritage – work with loan portfolio of "old" non-performing loans, the loan portfolio sold to collection companies;
- Investing activities – responsible for financing the Group's operations (repo operations, raising funds from banks and financial institutions, issuance of bonds, subordinated debt), securities transactions, use of derivative financial instruments and foreign currency transactions;
- Other – other transactions with debtors/creditors, fixed assets, amounts on transit accounts and other transactions that are not related to segments / business lines (CB, SMB, RB, Heritage, Investing activities).

Performance of each reportable segment is presented below. Performance results of segment / business line are evaluated on the basis of derived profit, which includes the effective management of a portfolio of borrowed and placed funds. Profit from segment / business line is used to measure performance. Pricing is performed on the basis of borrowing / placement rates approved by the authorized body of the Bank.

31 December 2017	*CB*	*SMB*	*RB*	*Heritage*	*Investing activities*	*Other*	*Total*
Assets							
Cash and cash equivalents	–	–	–	–	200,088	31,732	231,820
Amounts due from financial institutions	–	–	–	–	6,393	–	6,393
Trading securities	–	–	–	–	290,919	–	290,919
Investment securities available-for-sale	–	–	–	–	58,559	–	58,559
Investment securities held-to-maturity	–	–	–	–	23,839	–	23,839
Loans to customers	152,611	142,966	254,058	122,216	–	–	671,851
Property and equipment	–	–	–	–	–	49,009	49,009
Intangible assets	–	–	–	–	–	3,741	3,741
Deferred tax assets	–	–	–	–	–	6,740	6,740
Other assets	929	2,584	4,163	64,235	4,375	25,483	101,769
Total assets	153,540	145,550	258,221	186,451	584,173	116,705	1,444,640
Liabilities							
Current accounts and deposits of customers	228,730	156,085	455,525	–	–	140,885	981,225
Amounts due to banks and other financial institutions	8,841	38,523	3,016	20,453	5,061	–	75,894
Amounts payable under repurchase agreements	–	–	–	–	36,639	–	36,639
Debt securities issued	–	–	–	–	–	125,121	125,121
Subordinated debt	–	–	–	–	–	22,740	22,740
Deferred tax liabilities	–	–	–	–	–	122	122
Other liabilities	1	1,660	2,226	44	91	4,676	8,698
Total liabilities	237,572	196,268	460,767	20,497	41,791	293,544	1,250,439
Equity							
Share capital	–	–	–	–	–	331,522	331,522
Additional paid-in capital	–	–	–	–	–	21,116	21,116
Revaluation reserve for available-for-sale securities	–	–	–	–	–	598	598
Accumulated losses	–	–	–	–	–	(159,676)	(159,676)
Total equity attributable to the shareholders of the Bank	–	–	–	–	–	193,560	193,560

(millions of tenge)

32. Segment information (continued)

Information on the main reporting segments for 2017 is presented as follows:

	CB	*SMB*	*RB*	*Heritage*	*Investing activities*	*Other*	*Total*
Interest income	9,967	18,013	54,924	12,233	25,209	–	120,346
Interest expense	(9,176)	(4,540)	(29,804)	(606)	(313)	(31,468)	(75,907)
Net interest income	791	13,473	25,120	11,627	24,896	(31,468)	44,439
Fee and commission income	759	5,826	5,300	–	117	–	12,002
Fee and commission expense	(2)	(358)	(2,244)	(517)	(392)	(1)	(3,514)
Net gains from financial instruments at fair value through profit or loss	–	–	–	–	1,335	–	1,335
Net gains from available-for-sale securities	–	–	–	–	345	–	345
Net gains/(losses) from foreign currencies	1,181	1,211	1,359	(6,217)	3,431	–	965
Gain on instruments unclaimed by creditors	–	–	–	–	3,139	–	3,139
Other operating income, net	85	(91)	(2,337)	649	12	4,296	2,614
Non-interest income	2,023	6,588	2,078	(6,085)	7,987	4,295	16,886
Impairment losses and provisions	2,248	(981)	(4,682)	3,369	3	(43)	(86)
General and administrative expenses	(1,366)	(7,360)	(18,447)	(5,694)	(972)	(2,643)	(36,482)
Non-interest expenses	882	(8,341)	(23,129)	(2,325)	(969)	(2,686)	(36,568)
Profit before corporate income tax expense	3,696	11,720	4,069	3,217	31,914	(29,859)	24,757
Corporate income tax expense	–	–	–	–	–	(5,006)	(5,006)
Profit for the year	3,696	11,720	4,069	3,217	31,914	(34,865)	19,751

During 2017 the Group revised its allocation of certain assets and liabilities within reporting segments, which also affected allocation of income and expenses within segment statement of profit and loss. Deposit of SWF Samruk-Kazyna JSC in the amount of KZT 140,772 million, debt securities issued totaling KZT 125,121 million and subordinated debt in the amount of KZT 22,740 million were transferred from "Investing activities" segment to "Other" segment as operating results of segments are considered by the Bank's management responsible for operational decisions in the presented form. Repossessed collateral in the amount of KZT 61,346 million was transferred from "Other" segment to "Heritage", as these assets were recovered from "old" problem/non-performing loans.

(millions of tenge)

32. Segment information (continued)

31 December 2016	*CB*	*SMB*	*RB*	*Heritage*	*Investing activities*	*Other*	*Total*
Assets							
Cash and cash equivalents	–	–	–	–	177,241	–	177,241
Amounts due from financial institutions	–	–	–	–	10,682	–	10,682
Trading securities	–	–	–	–	207,181	–	207,181
Investment securities available-for-sale	–	–	–	–	19,755	–	19,755
Loans to customers	111,297	109,804	254,599	148,223	–	–	623,923
Property and equipment	–	–	–	–	–	50,698	50,698
Intangible assets	–	–	–	–	–	3,520	3,520
Derivative financial assets	–	–	–	–	30,153	–	30,153
Deferred tax assets	–	–	–	–	–	11,633	11,633
Other assets	10	3,808	4,476	358	282	71,457	80,391
Total assets	111,307	113,612	259,075	148,581	445,294	137,308	1,215,177
Liabilities							
Current accounts and deposits of customers	151,886	96,642	420,612	–	133,695	–	802,835
Amounts due to banks and other financial institutions	8,431	28,442	1,644	20,402	10,233	–	69,152
Debt securities issued	–	–	–	–	134,421	–	134,421
Subordinated debt	–	–	–	–	22,740	–	22,740
Deferred tax liabilities	–	–	–	–	–	81	81
Other liabilities	6	220	464	10	9	7,317	8,026
Total liabilities	160,323	125,304	422,720	20,412	301,098	7,398	1,037,255
Equity							
Share capital	–	–	–	–	–	332,094	332,094
Additional paid-in capital	–	–	–	–	–	21,116	21,116
Revaluation reserve for available-for-sale securities	–	–	–	–	–	(1,036)	(1,036)
Accumulated losses	–	–	–	–	–	(174,797)	(174,797)
Total equity attributable to the shareholders of the Bank	–	–	–	–	–	177,377	177,377

(millions of tenge)

32. Segment information (continued)

Information on the main reporting segments for 2016 is presented as follows:

	CB	*SMB*	*RB*	*Heritage*	*Investing activities*	*Other*	*Total*
Interest income	9,214	15,537	46,695	15,785	19,739	–	106,970
Interest expense	(5,682)	(2,390)	(22,459)	(610)	(33,237)	–	(64,378)
Net interest income	3,532	13,147	24,236	15,175	(13,498)	–	42,592
Fee and commission income	815	4,238	3,013	–	45	–	8,111
Fee and commission expense	(2)	(14)	(1,010)	(373)	(270)	(116)	(1,785)
Net gains from financial instruments at fair value through profit or loss	–	–	–	–	4,766	–	4,766
Net gains from available-for-sale securities	–	–	–	–	184	–	184
Net (losses)/gain from foreign currencies	–	–	939	(5,826)	5,631	–	744
Net gains from repurchase of debt securities issued	–	–	–	–	276	–	276
Other operating income, net	66	(112)	(1,641)	690	41	2,085	1,129
Non-interest	4,411	17,259	25,537	9,666	(2,825)	1,969	56,017
Impairment losses and provisions	1,411	(432)	(6,977)	3,587	(53)	(73)	(2,537)
General and administrative expenses	(5,190)	(4,933)	(18,735)	(3,961)	(321)	(1,428)	(34,568)
Non-interest expenses	(3,779)	(5,365)	(25,712)	(374)	(374)	(1,501)	(37,105)
Profit before corporate income tax expense	632	11,894	(175)	9,292	(3,199)	468	18,912
Corporate income tax expense	–	–	–	–	–	(7,258)	(7,258)
Profit for the year	632	11,894	(175)	9,292	(3,199)	(6,790)	11,654

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

	Assets and liabilities measured at fair value	*Assets and liabilities for which fair values are disclosed*	*Total carrying amount*	*Fair values*	*Unrecog-nised gain/ (loss)*
Cash and cash equivalents	–	231,820	231,820	231,820	–
Amounts due from financial institutions	–	6,393	6,393	6,393	–
Trading securities	290,919	–	290,919	290,919	–
Loans to customers	–	671,851	671,851	668,126	(3,725)
Investment securities available-for-sale	58,559	–	58,559	58,559	–
Investment securities held-to-maturity	–	23,839	23,839	24,806	967
Other financial assets	–	22,937	22,937	22,937	–
	349,478	956,840	1,306,318	1,303,560	(2,758)
Current accounts and deposits of customers	–	981,225	981,225	965,179	16,046
Amounts due to banks and other financial institutions	–	75,894	75,894	75,992	(98)
Amounts payable under repurchase agreements	–	36,639	36,639	36,639	–
Debt securities issued	–	125,121	125,121	137,573	(12,452)
Subordinated debt	–	22,740	22,740	22,459	281
Other financial liabilities	–	7,142	7,142	7,142	–
	–	1,248,761	1,248,761	1,244,984	3,777
					1,019

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

	Assets and liabilities measured at fair value	*Assets and liabilities for which fair values are disclosed*	*Total carrying amount*	*Fair values*	*Unrecog-nised gain/ (loss)*
Cash and cash equivalents	–	177,241	177,241	177,241	–
Amounts due from financial institutions	–	10,682	10,682	10,682	–
Trading securities	207,181	–	207,181	207,181	–
Derivative financial assets	30,153	–	30,153	30,153	–
Loans to customers	–	623,923	623,923	609,668	(14,255)
Investment securities available-for-sale	19,755	–	19,755	19,755	–
Other financial assets	–	9,283	9,283	9,283	–
	257,089	821,129	1,078,218	1,063,963	(14,255)
Current accounts and deposits of customers	–	802,835	802,835	736,206	66,629
Amounts due to banks and other financial institutions	–	69,152	69,152	69,746	(594)
Debt securities issued	–	134,421	134,421	135,544	(1,123)
Subordinated debt	–	22,740	22,740	21,627	1,113
Other financial liabilities	–	6,907	6,907	6,907	–
	–	1,036,055	1,036,055	970,030	66,025
					51,770

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification (continued)

Accounting classifications and fair values (continued)

The estimate of fair value is intended to approximate the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, considering the uncertainties and the use of judgements, the fair value should not be interpreted as realisable within the framework of an immediate sale of assets or the transfer of liabilities.

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market quotes or dealers' prices. The Group determines fair value of all other financial instruments using various valuation techniques.

The purpose of valuation techniques is to achieve a method of fair value measurement that reflects the price of a transaction on an organized market for the sale of an asset or transfer a liability between market participants at the measurement date.

Valuation techniques include net present value valuation models and discounting of cash flows, comparison with similar instruments with known market quotations, as well as other valuation models. Assumptions and inputs used in valuation techniques include risk-free and base interest rates, credit spreads and other adjustments used in estimating discount rates, shares and bonds quotations, and expected price movements and their comparison. Valuation techniques focused on determining the fair value, which reflects the value of a financial instrument as at the reporting date that would have been determined by independent market participants.

The Group uses widely recognised valuation techniques for determining the fair value of standard and more simple financial instruments, such as interest rate and currency swaps, and such techniques use only observable market data and do not require management judgements or estimates. Observable quotations and model inputs are usually available in the market for publicly traded debt and equity securities, derivatives traded on the stock exchange, as well as simple off-market financial derivatives, such as interest rate swaps.

The Group uses its own valuation models for more sophisticated instruments. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Certain loans and securities for which there is no active market can be an example of instruments the estimation of which is based on the use of unobservable inputs.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from financial institutions, deposits of banks and other financial institutions, other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The following assumptions are used by the management to estimate the fair values of financial instruments:

- to discount the future cash flows from loans to corporate customers the discount rate in the range from 5.28% to 18.63% (31 December 2016: 5.23% to 15.95%) was used;
- to calculate the future cash flows from loans to individuals the discount rate in the range from 14% to 26.84% (31 December 2016: 12.84% to 28.40%) was used.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: models for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification (continued)

Fair value hierarchy (continued)

The following table analyses financial instruments carried at fair value as at 31 December 2017, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets					
Trading securities	14	289,569	–	1,350	290,919
Investment securities available-for-sale	17	58,559	–	–	58,559
		348,128	–	1,350	349,478

The following table analyses financial instruments carried at fair value as at 31 December 2016, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets					
Trading securities	14	207,181	–	–	207,181
Investment securities available-for-sale	17	19,755	–	–	19,755
Derivative financial assets	15	–	–	30,153	30,153
		226,936	–	30,153	257,089

The following table shows a reconciliation of Level 3 assets for 2017 which are recorded at fair value:

	Trading securities	*Derivative financial assets*
Balance as at 1 January 2017	–	30,153
Net gains/(losses) from financial instruments at fair value through profit or loss	1,350	(1,358)
Repayment	–	(28,795)
Balance as at 31 December 2017	1,350	–

The following table shows a reconciliation of Level 3 assets for 2016 which are recorded at fair value:

	Derivative financial assets
Balance as at 1 January 2016	31,763
Net losses from financial instruments at fair value through profit or loss	(3,572)
Repayment	1,962
Balance as at 31 December 2016	30,153

Gains and losses on financial instruments of Level 3 included in the consolidated statement of comprehensive income for the years ended 31 December 2017 and 2016 comprise:

	2017		*2016*	
	Realised gain	*Unrealised loss*	*Realised gain*	*Unrealised gain*
(Losses)/gains recognised in profit or loss	(1,358)	1,350	–	(3,572)

Gains/(losses) from operations with derivative financial instruments are recognised in profit or loss of the consolidated statement of comprehensive income as "Net gains from financial instruments at fair value through profit or loss". Gains/(losses) recognised in other comprehensive income are recorded in other comprehensive income of the consolidated statement of comprehensive income as "Net change in fair value of available-for-sale securities".

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification (continued)

Fair value hierarchy (continued)

Impact of changes in significant non-observable inputs on evaluation of financial instruments of Level 3 of fair value hierarchy

The table below presents quantitative information on significant non-observable inputs used for valuation of financial instruments of Level 3 of fair value hierarchy:

31 December 2016	*Carrying value*	*Valuation techniques*	*Non-observable inputs*	*Range (weighted average value)*
Derivative financial instruments				
Currency swaptions	30,153	Discounted cash flows	Adjustment of credit spread	2.13%-2.20% (2.16%)

As at 31 December 2016, Level 3 includes unquoted derivative financial assets comprised of currency swaptions under the agreements with the NBRK, the fair value of which was determined through discounting of future cash flows taking into account forward foreign exchange rates at offshore rates in tenge and adjustment for credit risk of the Republic of Kazakhstan. The curve of offshore rates in tenge was drawn based on swap curve in US dollars and forward tenge exchange rates to US dollar. Management of the Bank made an assumption that the NBRK will not use the option for early execution of the transaction.

The following table presents impact of possible alternative assumptions on estimation of fair value of Level 3 instruments:

	31 December 2016	
	Carrying value	*Impact of possible alternative assumptions*
Financial assets		
Derivative financial instruments	30,153	30,147-30,155

In order to determine possible alternative assumptions, the Bank adjusted key non-observable inputs for models as follows:

- for currency swaptions the Bank adjusted the probability of default and loss given default assumptions used to calculate the credit value adjustment.

The following table analyses financial instruments not measured at fair value but for which fair value is disclosed as at 31 December 2017, by fair value hierarchy:

	Level 1	*Level 2*	*Level 3*	*Total fair value disclosed*	*Total carrying value*
Assets					
Cash and cash equivalents	–	231,820	–	231,820	231,820
Amounts due from financial institutions	–	6,393	–	6,393	6,393
Loans to customers	–	–	672,296	672,296	671,851
Investment securities held-to-maturity	24,806	–	–	24,806	23,839
Other financial assets	–	22,937	–	22,937	22,937
Liabilities					
Current accounts and deposits of customers	–	974,234	–	974,234	981,225
Amounts due to banks and other financial institutions	–	75,992	–	75,992	75,894
Amounts payable under repurchase agreements	–	36,639	–	36,639	36,639
Debt securities issued	137,573	–	–	137,573	125,121
Subordinated debt	22,459	–	–	22,459	22,740
Other financial liabilities	–	7,142	–	7,142	7,142

(millions of tenge)

33. Financial assets and liabilities: fair values and accounting classification (continued)

Fair value hierarchy (continued)

Impact of changes in significant non-observable inputs on evaluation of financial instruments of Level 3 of fair value hierarchy (continued)

The following table analyses financial instruments not measured at fair value as at 31 December 2016, by fair value hierarchy, into which the fair value measurement is categorised:

	Level 1	*Level 2*	*Level 3*	*Total fair value disclosed*	*Total carrying value*
Assets					
Cash and cash equivalents	–	177,241	–	177,241	177,241
Amounts due from financial institutions	–	10,682	–	10,682	10,682
Loans to customers	–	–	609,668	609,668	623,923
Other financial assets	–	9,283	–	9,283	9,283
Liabilities					
Current accounts and deposits of customers	–	733,472	–	733,472	802,835
Amounts due to banks and other financial institutions	–	69,746	–	69,746	69,152
Debt securities issued	135,544	–	–	135,544	134,421
Subordinated debt	21,627	–	–	21,627	22,740
Other financial liabilities	–	6,907	–	6,907	6,907